



**Auditor of State
Betty Montgomery**

HIGHLAND COUNTY
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Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2002, as listed in the table of contents. These financial statements are the responsibility of the County's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Ohio Administrative Code, Section 117-2-03 (B) requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, as discussed in Note 1, the County prepares its financial statements on the basis of accounting in accordance with standards established by the Auditor of State for governmental entities that are not required to prepare annual reports in accordance with generally accepted accounting principles. This basis of accounting is a comprehensive basis of accounting other than generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined cash, investments, and combined fund cash balances of Highland County, Ohio, as of December 31, 2002, and its combined cash receipts and disbursements and its combined budgeted and actual receipts and budgeted and actual disbursements and encumbrances for the year then ended on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 30, 2003 on our consideration of the County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The accompanying federal awards expenditures schedule is presented for additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. We subjected this information to the auditing procedures applied in the audit of the financial statements. In our opinion, it is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of management, elected officials, federal awarding agencies and pass-through entities, and other officials authorized to receive this report under Section 117.26, of the Ohio Revised Code, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 30, 2003

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH, INVESTMENTS,
AND FUND CASH BALANCES - ALL FUND TYPES
AS OF DECEMBER 31, 2002

Cash and Cash Equivalents	\$8,681,269
Investments	<u>2,774,977</u>
Total cash and investments	<u><u>\$11,456,246</u></u>

CASH BALANCES BY FUND TYPE

Governmental funds:	
General fund	\$1,668,647
Special revenue funds	3,887,019
Debt service funds	1,943,738
Capital projects funds	1,786,222
Proprietary funds:	
Enterprise funds	190,197
Fiduciary funds:	
Expendable trust funds	77,146
Agency funds	<u>1,903,277</u>
Total	<u><u>\$11,456,246</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND
CHANGES IN FUND CASH BALANCES
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUND
FOR THE YEAR ENDED DECEMBER 31, 2002

	Governmental Fund Types					Totals (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	Expendable Trust	
Cash Receipts:						
Local Taxes	\$4,096,068	\$2,140,730	\$0	\$110,000	\$0	\$6,346,798
Intergovernmental	1,161,682	11,685,907		821,712		13,669,301
Special Assessments			464,266			464,266
Charges for Services	1,283,015	322,435				1,605,450
Licenses, Permits, and Fees	3,945					3,945
Fines, Forfeitures, and Penalties	122,588	59,622				182,210
Earnings on Investments	213,947	23,651	28,173	12,791		278,562
Other Revenue	77,652	842,948	7,144	392,000	17,113	1,336,857
Total Cash Receipts	6,958,897	15,075,293	499,583	1,336,503	17,113	23,887,389
Cash Disbursements:						
Current:						
General Government - Legislative and Executive	2,219,086	317,886				2,536,972
General Government - Judicial	1,137,219					1,137,219
Public Safety	2,259,469	72,631				2,332,100
Public Works	206,968	7,559,289				7,766,257
Health	45,584	998,037				1,043,621
Human Services	147,799	6,026,840				6,174,639
Conservation - Recreation						
Miscellaneous	1,265,787	510,291			327	1,776,405
Debt Service:						
Redemption of Principal - Bonds			83,900			83,900
Redemption of Principal - Notes			12,316,031			12,316,031
Interest and Fiscal Charges			606,643			606,643
Capital Outlay				2,942,370		2,942,370
Total Cash Disbursements	7,281,912	15,484,974	13,006,574	2,942,370	327	38,716,157
Total Receipts Over/(Under) Disbursements	(323,015)	(409,681)	(12,506,991)	(1,605,867)	16,786	(14,828,768)
Other Financing Receipts/(Disbursements):						
Proceeds from Sale of Public Debt:						
Proceeds of Loan	65,113		424,060	42,136		531,309
Sale of Bonds			5,000,000			5,000,000
Proceeds from the Sale of Notes			6,835,000	1,550,000		8,385,000
Transfers-In		262,970	286,120	1,120,502		1,669,592
Advances-In	27,574	68,469	9,558			105,601
Transfers-Out	(1,396,547)	(283,308)				(1,679,855)
Advances-Out	(78,026)	(27,575)				(105,601)
Other Sources	1,125,602	591,059	284,563	175,400		2,176,624
Other Uses	(776,211)	(332,747)		(547,770)		(1,656,728)
Total Other Financing Receipts/(Disbursements)	(1,032,495)	278,868	12,839,301	2,340,268	-	14,425,942
Excess of Cash Receipts and Other Financing Receipts Over/(Under) Cash Disbursements and Other Financing Disbursements	(1,355,510)	(130,813)	332,310	734,401	16,786	(402,826)
Fund Cash Balances, January 1	3,024,157	4,017,832	1,611,428	1,051,821	60,360	9,765,598
Fund Cash Balances, December 31	\$1,668,647	\$3,887,019	\$1,943,738	\$1,786,222	\$77,146	\$9,362,772
Reserve for Encumbrances, December 31	\$69,380	\$172,676	\$0	\$0	\$0	\$242,056

The notes to the financial statements are an integral part of this statement.

HIGHLAND COUNTY

COMBINED STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS
AND CHANGES IN FUND CASH BALANCES ·
PROPRIETARY FUND TYPE AND AGENCY FUNDS -
FOR THE YEAR ENDED DECEMBER 31, 2002

	<u>PROPRIETARY FUND TYPE</u>	<u>FIDUCIARY FUND TYPE</u>	<u>Totals (Memorandum Only)</u>
	<u>Enterprise</u>	<u>Agency</u>	
Operating cash receipts:			
Charges for services	\$293,342	\$0	\$293,342
Other operating revenues	14,998		14,998
Total operating cash receipts	<u>308,340</u>	<u>0</u>	<u>308,340</u>
Operating cash disbursements:			
Contractual services	454,818		454,818
Total operating cash disbursements	<u>454,818</u>	<u>0</u>	<u>454,818</u>
Operating income/(loss)	<u>(146,478)</u>	<u>0</u>	<u>(146,478)</u>
Non-operating cash receipts/ disbursements			
Other non-operating cash receipts	46,272	45,904,330	45,950,602
Other non-operating cash disbursements		(45,334,739)	(45,334,739)
Excess non-operating cash receipts over/(under) non-operating cash disbursements	<u>46,272</u>	<u>569,591</u>	<u>615,863</u>
Net receipts over/(under) disbursements before transfers	(100,206)	569,591	469,385
Transfers-in	11,317		11,317
Transfers-out	<u>(1,054)</u>		<u>(1,054)</u>
Net receipts over/(under) disbursements	(89,943)	569,591	479,648
Fund cash balances, January 1	<u>280,140</u>	<u>1,333,686</u>	<u>1,613,826</u>
Fund cash balances, December 31	<u><u>\$190,197</u></u>	<u><u>\$1,903,277</u></u>	<u><u>\$2,093,474</u></u>

The notes to the financial statements are an integral part of this statement.

HIGHLAND COUNTY

COMBINED STATEMENT OF RECEIPTS - BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Fund Types/Funds</u>	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Governmental:			
General fund	\$8,162,611	\$8,149,612	(\$12,999)
Special revenue funds	15,829,926	15,929,322	99,396
Debt service funds	12,918,885	13,329,326	410,441
Capital projects funds	4,182,405	4,224,541	42,136
Proprietary:			
Enterprise fund	355,017	365,929	10,912
Fiduciary:			
Expendable trust funds	<u>17,113</u>	<u>17,113</u>	<u>0</u>
Totals (Memorandum only)	<u>\$41,465,957</u>	<u>\$42,015,843</u>	<u>\$549,886</u>

The accompanying notes to the financial statements are an integral part of this statement.

HIGHLAND COUNTY

COMBINED STATEMENT OF DISBURSEMENTS AND ENCUMBRANCES
 COMPARED WITH EXPENDITURE AUTHORITY
 FOR THE YEAR ENDED DECEMBER 31, 2002

<u>Fund Types/Funds</u>	<u>Prior Year Carryover Appropriations</u>	<u>Appropriations</u>	<u>Total</u>	<u>Disbursements</u>	<u>Encumbrances Outstanding At 12/31/02</u>	<u>Total</u>	<u>Variance Favorable/ (Unfavorable)</u>
Governmental:							
General fund	\$57,875	\$10,317,277	\$10,375,152	\$9,454,670	\$69,380	\$9,524,050	\$851,102
Special revenue funds	382,217	17,718,792	18,101,009	16,101,029	172,676	16,273,705	1,827,304
Debt service funds		12,587,229	12,587,229	13,006,574		13,006,574	(419,345)
Capital projects funds	119,068	3,778,893	3,897,961	3,490,140		3,490,140	407,821
Proprietary:							
Enterprise fund	2,330	517,546	519,876	455,872		455,872	64,004
Fiduciary:							
Expendable trust funds		10,000	10,000	327		327	9,673
Totals (Memorandum only)	<u>\$561,490</u>	<u>\$44,929,737</u>	<u>\$45,491,227</u>	<u>\$42,508,612</u>	<u>\$242,056</u>	<u>\$42,750,668</u>	<u>\$2,740,559</u>

The accompanying notes to the financial statements are an integral part of this statement.

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HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2002

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Entity

Highland County, Ohio (the County), is a body politic and corporate established for the purpose of exercising the rights and privileges conveyed to it by the constitution and laws of the State of Ohio. The County operates under the direction of a three-member Board of County Commissioners. The County Auditor is responsible for the fiscal controls of the resources of the County which are maintained in the funds described below. The County Treasurer is the custodian of funds and the investment officer. All of these officials are elected. Services provided by the County include general government, public safety, health, public works, human services, conservation-recreation services, sanitation, and maintenance of highways and streets.

The reporting entity is comprised of the primary government, component units and other organizations that are included to ensure that the financial statements of the County are not misleading. The primary government consists of all funds, departments, boards and agencies that are not legally separate from the County. For Highland County, this includes the Highland County Board of Mental Retardation and Developmental Disabilities and all departments and activities that are not directly operated by the elected County officials.

Highland County provides services and/or subsidies are the Law Library Association, Regional Airport Authority, District Board of Health, Soil and Water Conservation District, and the Family and Children First Council. These are separate reporting entities. Separate financial and compliance audits are performed for these entities. The County Auditor is the fiscal agent for the District Board of Health, the Family and Children First Council, and the Soil and Water Conservation District, and the receipts and disbursements of these entities are accounted for in the Agency Funds of the County.

Highland County is involved with the Solid Waste Management District, a joint venture including Ross, Pickaway, Fayette, and Highland Counties. Ross County is the fiscal agent over the District. Highland County has no liability to the District nor do they expend any monies to the District. A separate financial and compliance audit is performed for the District.

Component units are legally separate organizations for which the County is financially accountable. The County is financially accountable for an organization if the County appoints a voting majority of the organization's governing board and (1) the County is able to significantly influence the programs or services performed or provided by the organization; or (2) the County is legally entitled to or can otherwise access the organization's resources; the County is legally obligated or has otherwise assumed the responsibility to finance the deficits of, or provide financial support to the organization; or the County is obligated for the debt of the organization. Component units also includes organizations that are fiscally dependent on the County in that the County approves the organization's budget, the issuance of its debt or levying of its taxes.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Highco, Inc. is a legally separate, not-for-profit corporation, served by a board of trustees appointed by the Highland County Board of Mental Retardation and Developmental Disabilities (MRDD). The workshop, under contractual agreement with the Highland County Board of MRDD, provides sheltered employment for mentally and/or physically handicapped adults in Highland County.

The Highland County Board of MRDD provides the workshop with staff salaries, transportation, equipment, staff to administer and supervise training programs, and other funds necessary for the operation of the workshop. Based on the significant services and resources provided by the County to the workshop and the workshop's sole purpose of providing assistance to the mentally and/or physically handicapped adults of Highland County, the workshop is considered a component unit of Highland County. Separately issued financial statements can be obtained from Highco, Inc., 8919 U.S. Route 50, Hillsboro, Ohio 45133.

Management believes the financial statements included in this report represent all of the funds and activities for which the County is financially accountable, except for Highco, Inc.

B. Basis of Accounting

Although required by Ohio Administrative Code, Section 117-2-03 (B) to prepare its annual financial report in accordance with generally accepted accounting principles, the County chooses to prepare its financial statements and notes in accordance with standards established the Auditor of State for governmental entities that are not required to prepare annual financial reports in accordance with generally accepted accounting principles. This basis of accounting is similar to the cash receipts and disbursements basis of accounting. Receipts are recognized when received in cash rather than when earned, and disbursements are recognized when paid rather than when a liability is incurred. Budgetary presentations report budgetary expenditures when a commitment is made (i.e., when an encumbrance is approved).

These statements include adequate disclosure of material matters, in accordance with the basis of accounting described in the preceding paragraph.

C. Cash, Cash Equivalents and Investments

The County Treasurer invests all available funds of the County. County funds are invested in "Now" checking accounts with local commercial banks, certificates of deposit, US government securities and mutual funds. The County pools its cash for investment purposes to capture the highest rate of return. Investment income is distributed to County funds based upon the Ohio Revised Code. Investments are stated at cost.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Accounting

The County maintains its accounting records in accordance with the principles of "fund" accounting. Fund accounting is a concept developed to meet the needs of governmental entities in which legal or other restraints require the recording of specific receipts and disbursements. The transactions of each fund are reflected in a self-balancing group of accounts, an accounting entity which stands separate from the activities reported in other funds. The restrictions associated with each class of funds are as follows:

1. Governmental Funds

General Fund

The General Fund is the general operating fund of the County. It is used to account for all financial resources except those required by law or contract to be accounted for in another fund.

Special Revenue Funds

Special revenue funds are used to account for proceeds of specific revenue sources (other than expendable trusts, or major capital projects) that are legally restricted to disbursements for specified purposes.

Debt Service Funds

Debt service funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest and related costs. According to governmental accounting principles, the debt service funds account for the payment of long-term debt for governmental funds only. Under Ohio law, the debt service fund may also be used to account for the payment of the long-term debt of proprietary funds and the short-term debt of both governmental and proprietary funds. For purposes of this report, these funds have been classified into the proper groups, if practicable.

Capital Projects Funds

Capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

2. Proprietary Funds

Enterprise Funds

Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purpose.

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Fiduciary Funds

Trust and Agency Funds

Trust and agency funds are used to account for assets held by a governmental unit in a trustee capacity or as an agent for individuals, other governmental units, and/or other funds. These include Expendable Trust and Agency Funds.

E. Budgetary Process

The Ohio Revised Code requires that each fund except certain agency funds be budgeted annually.

1. Budget

A budget of estimated cash receipts and disbursements is submitted to the County Auditor, as Secretary of the County Budget Commission, by July 20 of each year, for the period January 1 to December 31 of the following year.

2. Estimated Resources

The County Budget Commission certifies its actions to the County by September 1. As part of this certification, the County receives the official certificate of estimated resources which states the projected receipts of each fund. On or about January 1, this certificate is amended to include any unencumbered balances from the preceding year. Prior to December 31, the County must revise its budget so that the total contemplated expenditures from a fund during the ensuing fiscal year will not exceed the amount stated in the certificate of estimated resources. The revised budget then serves as the basis for the annual appropriation measure. Budget receipts as shown in the accompanying financial statements do not include January 1, 2002 unencumbered fund balances. However, those fund balances are available for appropriations.

3. Appropriations

A temporary appropriation measure to control cash disbursements may be passed on or about January 1 of each year for the period January 1 to March 31. An annual appropriation measure must be passed by April 1 of each year for the period January 1 to December 31. The appropriation measure may be amended or supplemented during the year as new information becomes available. Appropriations may not exceed estimated resources.

4. Encumbrances

The County is required to use the encumbrance method of accounting by virtue of Ohio law. Under this system, purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve the portion of the applicable appropriation. At the close of each fiscal year, the unencumbered balance of each appropriation reverts to the respective fund from which it was appropriated and becomes subject to future appropriations.

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2002 (Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The encumbered appropriation balance is carried forward to the succeeding fiscal year and need not be reappropriated. The County did not encumber all commitments required by Ohio law. The budgetary presentations have been adjusted to include material items that should have been encumbered.

5. Legal Level of Control

Each County department prepares a budget which is approved by the Board of County Commissioners. The County maintains budgetary control within an organizational unit and fund by not permitting expenditures and encumbrances to exceed appropriations at the object level (the legal level of control). Modifications to the original budget within expenditure objects require the approval of the Board of Commissioners.

F. Property, Plant and Equipment

Acquisitions of property, plant and equipment are recorded as disbursements when paid. These items are not reflected as assets on the accompanying financial statements.

G. Total Columns on Financial Statements

Total columns on the financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. This data is not comparable to a consolidation. Interfund-type eliminations have not been made in the aggregation of this data.

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS

Monies held by the County are classified by State Statute into two categories. Active monies are public monies determined to be necessary to meet current demand upon the County treasury. Active monies must be maintained either as cash in the County treasury, in commercial accounts payable on demand, including negotiable order of withdrawal (NOW) accounts, or in money market deposit accounts.

Moneys held by the County which are not considered active are classified as inactive. Inactive monies may be deposited or invested in the following securities:

- A. United States treasury notes, bills, bonds, or any other obligation or security issued by the United States treasury or any other obligation guaranteed as to principal or interest by the United States.
- B. Bonds, notes, debentures, or any other obligations or securities issued by any federal government agency or instrumentality, including but not limited to, the federal national mortgage association, federal home loan bank, federal farm credit bank, federal home loan mortgage corporation, government national mortgage association, and student loan marketing association. All federal agency securities shall be direct issuances of federal government agencies or instrumentalities.
- C. Written repurchase agreements in the securities listed above provided that the market value of the securities subject to the repurchase agreement must exceed the principal value of the agreement by at least two percent and be marked to market daily, and that the term of the agreement must not exceed thirty days;

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

- D. Bond and other obligations of the State of Ohio or its political subdivision, provided that such political subdivisions are located wholly or partly within the County;
- E. Time certificates of deposit or savings or deposit accounts, including, but not limited to, passbook accounts;
- F. No-load money market mutual funds consisting exclusively of obligations described in division (1) or (2) and repurchase agreements secured by such obligations, provided that investments in securities described in this division are made only through eligible institutions;
- G. The State Treasurer's investment pool (STAROhio);
- H. Securities lending agreements in which the County lends securities and the eligible institution agrees to exchange either securities described in division (1) or (2) or cash or both securities and cash, equal value for equal value;
- I. High grade commercial paper in an amount not to exceed five percent of the County's total average portfolio;
- J. Bankers acceptances for a period not to exceed 270 days and in an amount not to exceed ten percent of the County's total average portfolio;

Investments in stripped principal or interest obligations, reverse repurchase agreements and derivatives are prohibited. The issuance of taxable notes for the purpose of arbitrage, the use of leverage and short selling are also prohibited. An investment must mature within five years from the date of purchase unless matched to a specific obligation or debt of the County, and must be purchased with the expectation that it will be held to maturity.

Protection of the County's deposits is provided by the Federal Deposit Insurance Corporation, eligible securities pledged by the financial institution as security for repayment, by surety company bonds deposited with the treasurer by the financial institution or by a single collateral pool established by the financial institution to secure the repayment of all public monies deposited with the institution.

Investments may only be made through specified dealers and institutions. Payment for investments may be made only upon delivery of the securities representing the investments to the treasurer or qualified trustee or, if the securities are not represented by a certificate, upon receipt of confirmation of transfer from the custodian.

Deposits

Government Accounting Standards Board (GASB) Statement No. 3 requires that all deposits be classified as to risk. The following categories are most typically used:

- A. Insured or collateralized with securities held by the entity or by its agent in the entity's name;
- B. Collateralized with securities held by the pledging financial institution's trust department or agent in the entity's name;
- C. Uncollateralized. (This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the entity's name).

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

2. EQUITY IN CASH EQUIVALENTS AND INVESTMENTS (Continued)

At December 31, 2002, the carrying amount of the County's deposits was \$8,681,269. The bank balance of \$9,386,715 for deposits is classified by risk as follows:

- A. \$461,062 was insured by the Federal Depository Insurance Corporation.
- B. \$8,925,653 was covered by collateral held by third party trustees pursuant to Section 135.181, of the Ohio Revised Code, in single institution collateral pools securing all public funds on deposit with specific depository institutions. The Code specifies that the total value of securities pledged as collateral must be at least equal to 110% of the total amount of the insured deposits, including any portion covered by federal deposit insurance. The code also specifies what kind of securities are eligible to be pledged and what percentage of their face value counts as being eligible for collateral.

Investments

The County's investments are categorized below to give an indication of the level of risk assumed by the County at year end. Category 1 includes investments that are insured or registered or securities are held by the County or its agent in the County's name. Category 2 includes uninsured and unregistered investments with securities held by the broker's or dealer's trust department or agent in the County's name. Category 3 includes uninsured and unregistered investments with the securities held by the broker or dealer, or by its trust department or agent, but not in the County's name.

	<u>Category 3</u>	<u>Unclassified</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
U.S. Government Agency Securities	\$2,769,358		\$2,769,359	\$2,767,168
Money Market Mutual Fund		\$5,618	\$5,618	\$5,618
<hr/>				
Total Investments	\$2,769,358	\$5,618	\$2,774,977	\$2,772,786

The Money Market Mutual Fund is not classified by risk category because it is not evidenced by securities that exist in physical or book entry form.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. DEBT

Long-Term debt and other obligations of the County at December 31, 2002 were as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2001</u>	<u>Additions</u>	<u>- Deletions</u>	<u>Balance 12/31/2002</u>
1994 GO Bonds Series B Madsion Township	4.50%	2034	\$107,800	\$0	\$1,500	\$106,300
1996 GO Bonds Series A Tec. Center	5%	2016	1,138,600	0	52,800	1,085,800
1996 GO Bonds Series B Tec Center	5%	2016	416,400	0	19,300	397,100
2002 GO Bonds Correctional Facilities	1.5 - 4.8%	2022	0	5,000,000	0	5,000,000
Total GO Bonds			1,662,800	5,000,000	73,600	6,589,200
1994 Sewer Assessment Bonds Series A Madison Twp.	4.50%	2034	745,600	0	10,300	735,300
OWDA Loan Rocky Fork Water Pollution Control Loan	2.20%	2020	7,635,927	0	336,673	7,299,254
OPWC Loan Rocky Lake Area Wastewater Collection System	0%	2020	350,000	0	20,000	330,000
Salt Barn Loan	5.70%	2010	441,695	0	58,305	383,390
ODOD Loan Leesburg Industrial Park	2.10%	2007	0	489,173	0	489,173
OPWC Loan 2003 Rolling Acres WWTP	0%	2034	0	42,136	1,053	41,083
Total Long Term Debt			\$10,836,022	\$5,531,309	\$499,931	\$15,867,400

The County has an Ohio Department of Development Loan (ODOD) which is approved in the amount of \$655,000. As of December 31, 2002 the County has received a total of \$489,173 on this loan, the amortization schedule that follows assumes the \$655,000 will be borrowed.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

3. DEBT (Continued)

The annual requirements to amortize all long term debt outstanding as of December 31, 2002, including interest payments of \$6,007,441 are as follows:

<u>Year Ending December 31</u>	<u>General Obligation Bonds</u>	<u>Special Assessment Bonds</u>	<u>OWDA, ODOD and OPWC Loans</u>	<u>Unsecured Bank Loan</u>	<u>Totals (Memorandum Only)</u>
2003	\$542,169	\$43,789	\$273,385	\$60,346	\$919,689
2004	539,516	43,807	526,769	60,346	1,170,438
2005	540,240	43,803	526,769	60,346	1,171,158
2006	540,391	43,776	526,769	60,346	1,171,282
2007	545,004	43,828	573,190	60,346	1,222,368
2008-2012	2,696,420	219,003	3,031,736	180,202	6,127,361
2013-2017	2,552,773	218,889	2,985,314		5,756,976
2018-2022	1,958,287	219,025	1,556,560		3,733,872
2023-2027	31,650	219,024			250,674
2028-2032	31,710	219,027			250,737
2033-2037	<u>12,710</u>	<u>87,576</u>			<u>100,286</u>
Totals	<u>\$ 9,990,870</u>	<u>\$1,401,547</u>	<u>\$ 10,000,492</u>	<u>\$481,932</u>	<u>\$ 21,874,841</u>

Short-Term debt of the County at December 31, 2002 were as follows:

<u>Issue</u>	<u>Interest Rate</u>	<u>Maturity</u>	<u>Balance 12/31/2001</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 12/31/2002</u>
Bond Anticipation Note MRDD Project	4.38%	2003	\$495,000	\$430,000	\$495,000	\$430,000
Bond Anticipation Note Correctional Facilities	1.50%	2003	5,000,000	5,000,000	10,000,000	0
Bond Anticipation Note Land Acquisition	2.50%	2003	1,405,000	1,405,000	1,405,000	1,405,000
Bond Anticipation Note Various Purposes 2002	2.04%	2003	0	700,000	0	700,000
Bond Anticipation Note Courthouse Improvement	1.90%	2003	0	850,000	0	850,000
Total Notes			<u>\$6,900,000</u>	<u>\$8,385,000</u>	<u>\$11,900,000</u>	<u>\$3,385,000</u>

HIGHLAND COUNTY

NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)

4. PROPERTY TAX

Real property taxes are levied on assessed values which equal 35% of appraised value. The County Auditor reappraises all real property every six years with a triennial update. The last update was completed for tax year 1997 and the reappraisal was completed for tax year 2000.

Real property taxes become a lien on all non-exempt real property located in the County on January 1. Real property taxes are payable annually or semiannually. If paid annually, payment is due December 31; if paid semiannually, the first payment is due December 31 with the remainder payable by June 20 of the following year. Under certain circumstances, state statute permits later payment dates to be established.

The full tax rate applied to real property for the fiscal year ended December 31, 2002 was \$9.25 per \$1,000 of assessed valuation. After adjustment of the rate for inflationary increases in property values, the effective tax rate was \$7.17 per \$1,000 of assessed valuation for real property classified as residential/agricultural and \$7.44 per \$1000 of assessed valuation for all other real property. Real property owners' tax bills are further reduced by homestead and rollback deductions, when applicable. The amount of these homestead and rollback reductions is reimbursed to the County by the State of Ohio.

Owners of tangible personal property are required to file a list of such property, including costs, by April 30 of each year. The property is assessed for tax purposes at varying statutory percentages of cost. The tax rate applied to tangible personal property for the fiscal year ended December 31, 2002 was \$9.25 per \$1,000 of assessed valuation.

Real Property - 2001 Valuation	
Residential/Agricultural	\$ 399,051,420
Commercial/Industrial	62,587,940
Public Utilities	142,170
Tangible Personal Property - 2001 Valuation	
General	57,679,629
Public Utilities	<u>27,704,760</u>
Total Valuation	\$ <u>547,165,919</u>

The Highland County Treasurer collects property tax on behalf of all taxing districts within the County. The Highland County Auditor periodically remits to the taxing districts their portions of the taxes collected. Collections of the taxes and remittance of them to the taxing districts are accounted for in various agency funds of the County.

5. RISK MANAGEMENT

The County is exposed to various risks of loss related to torts, theft, damage to or destruction of assets, errors and omissions, employee injuries, and natural disasters. The County addresses these risks by maintaining a comprehensive risk management program through the purchase of various types of liability, inland marine, and property insurance from private carriers.

The County's exposure for the safety of its employees is covered by Ohio's Workers' Compensation department. The County carries commercial insurance for employee health and accident insurance. The County pays all elected and appointed officials' bonds by statute.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2002
(Continued)**

6. PENSION PLANS

1. Public Employees Retirement System of Ohio

The County contributes to the Public Employees Retirement System of Ohio (PERS), a cost-sharing, multiple employer public employee retirement system administered by the Public Employees Retirement Board. PERS provides basic retirement benefits, disability, and survivor benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 145 of the Ohio Revised Code. PERS issues a publicly available financial report that includes financial statements and required supplementary information for PERS. That report may be obtained by writing to the Public Employees Retirement System, 277 East Town Street, Columbus, Ohio 43215.

Plan members, other than those engaged in law enforcement, are required to contribute 8.5% of their annual covered salary to fund pension obligation and the employer is required to contribute 13.55%. For 2000, the County contributed an amount equal to 10.84% of participants' gross salaries resulting from a temporary reduction in the employer contribution rate. For law enforcement employees, the employee contribution is 9% and the employer contribution is 16.7%. Contributions are authorized by state statute. The contribution rates are determined actuarially. The County's required contributions to PERS for the years ended December 31, 2002, 2001, and 2000 were \$1,394,400, \$1,250,514 and \$1,026,691, respectively. As of December 31, 2002, the County has made all required contributions.

2. State Teachers Retirement System of Ohio

The County contributes to the State Teachers Retirement System of Ohio (STRS), a cost-sharing, multiple employer public employee retirement system administered by the State Teachers Retirement Board. STRS provides basic retirement benefits, disability, and survivor benefits based on eligible service credit to members and beneficiaries. Benefits are established by Chapter 3307 of the Ohio Revised Code. STRS issues a publicly available financial report that includes financial statements and required supplementary information for STRS. That report may be obtained by writing to the State Teachers Retirement System, 275 East Broad Street, Columbus, Ohio 43215-3771.

Plan members are required to contribute 9.3% of their annual covered salary and the employer is required to contribute 14%. Contribution rates are established by STRS, upon recommendation of its consulting actuary, not to exceed statutory maximum rates of 10% for members and 14% for employers. The County's contributions to STRS for the years ended December 31, 2002, 2001, and 2000 were \$28,616, \$32,081, and \$28,903, respectively. As of December 31, 2002, the County has made all required contributions.

7. COUNTY SALES TAX

The permissive tax was levied locally in the amount of one-half of one percent upon every retail sale made in Highland County. In 2002, the County received a total of \$2,867,874 from the State of Ohio as its share of the sales tax. Such receipts were credited to the County General Fund.

8. CONTINGENT LIABILITIES

Amounts received from grantor agencies are subject to audit and adjustment by the grantor, principally the federal government. Any disallowed costs may require refunding to the grantor. Amounts which may be disallowed, if any, are not presently determinable. However, based on prior experience, management believes such refunds, if any, would not be material.

HIGHLAND COUNTY

**NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2001
(Continued)**

9. ACCUMULATED UNPAID VACATION, PERSONAL, COMPENSATORY TIME AND SICK LEAVE

Accumulated unpaid vacation, personal, compensatory time and sick leave are not accrued under the cash basis of accounting described in Note 1. All leave will either be absorbed by time off from work, or within certain limitations, be paid to the employees. The liability is not recorded on the financial statements under the basis of accounting the County uses.

10. PENDING LITIGATION

The County has various cases pending, the outcome of which is not determinable as of the date of this report; however, counsel believes that the resolution of these matters will not materially adversely affect the County's financial condition.

HIGHLAND COUNTY

SCHEDULE OF FEDERAL AWARDS EXPENDITURES
FOR THE YEAR ENDED DECEMBER 31, 2002

Federal Grantor/ Pass Through Grantor Program Title	Pass Through Entity Number	Federal CFDA Number	Disbursements	Non-Cash Disbursements
U.S. DEPARTMENT OF AGRICULTURE				
<i>Passed Through Ohio Department of Education:</i>				
Nutrition Cluster:				
Food Distribution Program (See Note B)	N/A	10.550	\$0	\$4,566
National School Lunch Program (See Note C)	IRN - 066035	10.555	1,968	0
Total U.S. Department of Agriculture - Nutrition Cluster			1,968	4,566
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
<i>Passed Through Ohio Department of Development</i>				
Community Development Block Grant	B-F-00-033-1	14.228	12,969	0
Community Development Block Grant	B-F-01-033-1	14.228	213,771	0
Community Development Block Grant	B-C-01-033-1	14.228	204,681	0
Community Development Block Grant	B-C-01-033-2	14.239	76,107	0
Total U.S. Department of Housing and Urban Development			507,528	0
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
<i>Passed Through State Department of Mental Retardation and Developmental Disabilities</i>				
Social Services Block Grant - Title XX	N/A	93.667	30,426	0
Medical Assistance Program - Medicaid - Title XIX	N/A	93.778	494,984	0
Total U. S. Department of Health and Human Services			525,410	0
U.S. DEPARTMENT OF EDUCATION				
<i>Passed Through State Department of Education</i>				
Special Education Grants to States:				
Special Education Cluster:				
Special Education - Grants to States	066035-6B-SF-03P	84.027	2,200	0
Special Education - Preschool Grants	066035-PG-S1-03P	84.173	997	0
Total Special Education Cluster			3,197	0
Innovative Education Program Strategies	066035-C2-S1-2003	84.298	46	0
Total U. S. Department of Education			3,243	0
U.S. DEPARTMENT OF JUSTICE				
<i>Passed Through Office of the Ohio Attorney General</i>				
Criminal Victim Assistance Grant	2002-VAGENE-025	16.575	57,389	0
Criminal Victim Assistance Grant	2002-VAGENEO25X	16.575	23,739	0
			81,128	0
<i>Passed Through Ohio Office of Criminal Justice Service</i>				
Byrne Formula Grant Program	01-DG-B01-7028	16.579	24,687	0
Assault Team	01-DG-E01-7229	16.588	3,526	0
Assault Team	02-DG-E01-7229		25,558	0
			29,084	
<i>US Department of Justice - Direct</i>				
Community Oriented Policing Services (COPS)	95-CF-WX-1497	16.710	10,724	0
Total U.S. Department of Justice			145,623	0
U.S. DEPARTMENT OF LABOR				
<i>Passed Through Ohio Department of Jobs and Family Services</i>				
WIA - Adult Program		17.258	171,448	0
WIA - Youth Activities		17.259	130,661	0
WIA - Dislocated Workers		17.260	57,719	0
Total U.S. Department of Labor			359,828	0
U.S. DEPARTMENT OF COMMERCE				
<i>Economic Development Administration - Direct</i>				
Grants for Public Works and Economic Development Facilities		11.300	274,153	0
Total Federal Financial Assistance			\$1,817,753	\$4,566

The accompanying notes to this Schedule are an integral part of this Schedule.

HIGHLAND COUNTY

**NOTES TO SCHEDULE OF FEDERAL AWARDS EXPENDITURES
DECEMBER 31, 2002**

NOTE A - SIGNIFICANT ACCOUNTING POLICIES

The accompanying Schedule of Federal Awards Expenditures (the Schedule) summarizes activity of the County's federal award programs. The schedule has been prepared on the cash basis of accounting.

NOTE B - FOOD DISTRIBUTION

Nonmonetary assistance, such as food received from the U.S. Department of Agriculture, is reported in the Schedule at the fair market value of the commodities received and consumed. Cash receipts from the U.S. Department of Agriculture are commingled with State grants. It is assumed federal monies are expended first. At December 31, 2001, the County had no significant food commodities in inventory.

NOTE C - NATIONAL SCHOOL LUNCH PROGRAM

Federal funds were commingled with state subsidy and revenue from sale of meals. Assumed federal revenues were expended on a first-in/first-out basis.



**Auditor of State
Betty Montgomery**

**INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL REQUIRED BY GOVERNMENT AUDITING STANDARDS**

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

We have audited the accompanying financial statements of Highland County, Ohio (the County), as of and for the year ended December 31, 2002, and have issued our report thereon dated July 30, 2003, which we noted that the County prepares its financial statements on a basis of accounting other than that prescribed by Ohio Administrative Code Section 117-2-03 (B). We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying schedule of findings as items 2002-001 through 2002-003. We also noted certain immaterial instances of noncompliance that we have reported to management of the County in a separate letter dated July 30, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings as item 2002-002.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted other matters involving the internal control over financial reporting that do not require inclusion in this report, that we have reported to management of the County in a separate letter dated July 30, 2003.

This report is intended for the information and use of management, the Board of County Commissioners, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.



Betty Montgomery
Auditor of State

July 30, 2003



Auditor of State Betty Montgomery

INDEPENDENT ACCOUNTANTS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Highland County
200 Governor Foraker Place
Hillsboro, Ohio 45133

To the Board of County Commissioners:

Compliance

We have audited the compliance of Highland County, Ohio (the County), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2002. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the County's management. Our responsibility is to express an opinion on the County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance occurred with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2002. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying Schedule of Findings as item 2002-004. We also noted certain instances of noncompliance that do not require inclusion in this report that we have reported to the management of the County in a separate letter dated July 30, 2003.

Internal Control Over Compliance

The management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Highland County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the fiscal review committee, management, elected officials, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Betty Montgomery". The signature is written in a cursive, flowing style.

Betty Montgomery
Auditor of State

July 30, 2003

HIGHLAND COUNTY
SCHEDULE OF FINDINGS
OMB CIRCULAR A -133 § .505
DECEMBER 31, 2001

1. SUMMARY OF AUDITOR'S RESULTS

(d)(1)(i)	Type of Financial Statement Opinion	Unqualified
(d)(1)(ii)	Were there any material control weakness conditions reported at the financial statement level (GAGAS)?	No
(d)(1)(ii)	Were there any other reportable control weakness conditions reported at the financial statement level (GAGAS)?	Yes
(d)(1)(iii)	Was there any reported material non-compliance at the financial statement level (GAGAS)?	Yes
(d)(1)(iv)	Were there any material internal control weakness conditions reported for major federal programs?	No
(d)(1)(iv)	Were there any other reportable internal control weakness conditions reported for major federal programs?	No
(d)(1)(v)	Type of Major Programs' Compliance Opinion	Unqualified
(d)(1)(vi)	Are there any reportable findings under § .510?	Yes
(d)(1)(vii)	Major Programs (list):	Medicaid - Title XIX, CFDA #93.778, Community Development Block Grant, CFDA #14.228, Workforce Investment Act Cluster #17.258 (Adult), #17.259 (Youth), #17.260 (Dislocated Worker)
(d)(1)(viii)	Dollar Threshold: Type A\B Programs	Type A > \$300,000 Type B - all other programs
(d)(1)(ix)	Low Risk Auditee?	Yes

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS
REQUIRED TO BE REPORTED IN ACCORDANCE WITH GAGAS**

FINDING NUMBER 2002- 001

Material Noncompliance

Ohio Administrative Code, Section 117-2-03 (B), requires the County to prepare its annual financial report in accordance with generally accepted accounting principles. However, the County prepares its financial statements in accordance with standards established by the Auditor of State, for governmental entities not required to prepare annual reports in accordance with generally accepted accounting principles. The accompanying financial statements omit assets, liabilities, fund equities, and disclosures that, while material, cannot be determined at this time. The County can be fined and various other administrative remedies may be taken against the County.

FINDING NUMBER 2002- 002

Material Noncompliance / Reportable Condition

Ohio Revised Code, Section 5705.41 (D), requires that no subdivision or taxing unit shall make any contract or give any order involving the expenditure of money unless there is attached thereto a certificate of the fiscal officer of the subdivision that the amount required to meet the obligation has been lawfully appropriated for such purpose and is in the treasury or in the process of collection to the credit of an appropriate fund free from any previous encumbrances. Every such contract made without such a certificate shall be null and void and no warrant shall be issued in payment of any amount due thereon.

This section also provides two exceptions to the above requirements:

- A. Then-and-Now Certificates - If no certificate is furnished as required, upon receipt of the fiscal officer's certificate that a sufficient sum was, both at the time of the contract or order and at the time of the certificate, appropriated and free of any previous encumbrances, the County may authorize the issuance of a warrant in payment of the amount due upon such contract or order by resolution within thirty days from receipt of such certificate.
- B. If the amount involved is less than one hundred (\$100), the fiscal officer may authorize payment through a Then-and -Now Certificate without the affirmation of the Board of County Commissioners, if such expenditure is otherwise valid.

Where a continuing contract is to be performed in whole or in part in an ensuing fiscal year, only the amount required to meet those amounts in the fiscal year in which the contract is made need be certified.

Contrary to the above requirement, the availability of funds was not certified for 27% of the vouchers reviewed, and neither of the two exceptions provided above were utilized. Failure to certify the availability of funds and encumber appropriations can result in overspending funds and negative cash fund balances. Therefore, we recommend the Commissioners obtain approved purchase orders, which contain the Auditor's certification that the amount required to meet the obligation has been lawfully appropriated and authorized, prior to making a commitment.

FINDING NUMBER 2002- 003

Material Noncompliance

Ohio Revised Code, Section 5705.41(B), prohibits a subdivision from making an expenditure unless it has been properly appropriated. The financial statements reflect an adjustment to include rolling over a Bond Anticipation Note, however, the County did not include this activity within its annual budget, which resulted in expenditures exceeding appropriations in the Mental Retardation and Developmental Disabilities Construction Debt Fund by \$429,346.

The County should include all Note renewals as receipts and expenditures in the financial statements and monitor budgetary activity and obtain all necessary amendments.

FINDINGS FOR FEDERAL AWARDS

FINDING NUMBER 2002- 004

CFDA Title and Number	Small Cities Community Development Block Grant Community Housing Improvement Program – 14.228
Federal Award Number / Year	B-C-01-033-1
Federal Agency	U.S. Department of Housing and Urban Development (HUD)
Pass-Through Agency	Ohio Department of Development (ODD)

Noncompliance Citation

According to the State of Ohio, Department of Development, Office of Housing and Community Partnership Financial Management Rules and Regulations Handbook, Section (A)(3)(f),the grantee must develop a cash management system to ensure compliance with the Fifteen Day Rule relating to prompt disbursement of funds. This rule states that funds drawn down should be limited to amounts that will enable the grantee to disburse the funds on hand to a balance of less than \$5,000 within fifteen days of receipt of any funds. Draw downs for the grant listed above during 2002 ranging from \$8,417 to \$47,883 were not expended within fifteen days. We recommend the County monitor grant funds and limit draw downs to amounts that will enable the County to disburse funds within fifteen days.

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HIGHLAND COUNTY

SCHEDULE OF PRIOR AUDIT FINDINGS
DECEMBER 31, 2002

Finding Number	Finding Summary	Fully Corrected?	Not Corrected, Partially Corrected; Significantly Different Corrective Action Taken; or Finding No Longer Valid; <i>Explain:</i>
2001-60436-001	Ohio Administrative Code, Section 117-2-03 preparing annual financial on a cash basis.	No	Not Corrected - Repeated as finding 2002-001
2000-60436-002	Ohio Rev. Code 5707.41(D) - not prior certifying funds before making purchases.	No	Not Corrected - Repeated as finding 2002-002



**Auditor of State
Betty Montgomery**

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Facsimile 614-466-4490

HIGHLAND COUNTY FINANCIAL CONDITION

HIGHLAND COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
OCTOBER 14, 2003**